

Arizona State Lottery Commission

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	104.0	97.8	98.8
Personal Services	4,242,700	4,737,700	4,812,000
Employee Related Expenditures	1,896,200	1,758,600	1,769,400
Professional and Outside Services	314,500	384,300	386,800
Travel - In State	219,700	269,800	271,600
Travel - Out of State	1,800	16,700	16,800
Other Operating Expenditures	810,800	1,156,600	1,163,600
Equipment	218,900	0	0
OPERATING SUBTOTAL	7,704,600	8,323,700	8,420,200
SPECIAL LINE ITEMS			
Advertising	14,354,400	15,500,000	15,500,000
Charitable Commissions ^{1/}	654,000	686,700	721,100 ^{2/}
Instant Tickets ^{1/}	9,248,100	16,055,700	16,858,500 ^{3/}
On-Line Vendor Fees ^{1/}	8,644,300	9,055,700	9,508,400 ^{4/}
Retailer Commissions ^{1/}	43,708,100	46,049,500	48,352,000 ^{5/}
AGENCY TOTAL	84,313,500	95,671,300	99,360,200^{6/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	84,313,500	95,671,300	99,360,200
SUBTOTAL - Other Appropriated Funds	84,313,500	95,671,300	99,360,200
SUBTOTAL - Appropriated Funds	84,313,500	95,671,300	99,360,200
Other Non-Appropriated Funds	400,641,900	423,187,600	450,410,200
TOTAL - ALL SOURCES	484,955,400	518,858,900	549,770,400

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. In addition to Arizona-specific games, the state also participates in multi-state Powerball and Mega-Millions on-line games.

Operating Budget

The budget includes \$8,420,200 and 98.8 FTE Positions from the State Lottery Fund in FY 2014 for the operating budget. These amounts fund the following adjustments:

Product Development Assistant

The budget includes an increase of \$53,100 and 1 FTE Position from the State Lottery Fund in FY 2014 to fund hiring of a Product Development Assistant. Of this

amount, there would be one-time costs of \$1,500 for office equipment and ongoing costs of \$51,600 for employee salary and benefits.

Statewide Adjustments

The budget includes an increase of \$43,400 from the State Lottery Fund in FY 2014 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- ^{1/} Charitable Commissions, Instant Tickets, On-Line Vendor Fees, and Retailer Commissions are appropriated as a percentage of sales. Therefore, the amounts shown for those line items are estimates only.
- ^{2/} An amount equal to 20% of Tab Ticket sales is appropriated for payment of sales commissions to charitable organizations. This amount is currently estimated to be \$721,100 in FY 2014. (General Appropriation Act footnote)
- ^{3/} An amount equal to 3.6% of actual instant ticket sales is appropriated for the printing of instant tickets or for contractual obligations concerning instant ticket distribution. This amount is currently estimated to be \$16,858,500 in FY 2014. (General Appropriation Act footnote)
- ^{4/} An amount equal to a percentage of actual on-line game sales as determined by contract is appropriated for payment of on-line vendor fees. This amount is currently estimated to be \$9,508,400, or 3.7% of actual on-line ticket sales in FY 2014. (General Appropriation Act footnote)
- ^{5/} An amount equal to 6.5% of gross lottery game sales, less Tab Tickets, is appropriated for payment of sales commissions to ticket retailers. An additional amount not to exceed 0.5% of gross lottery game sales is appropriated for payment of sales commissions to ticket retailers. The combined amount is currently estimated to be 6.7% of total ticket sales, or \$48,352,000 in FY 2014. (General Appropriation Act footnote)
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Advertising

The budget includes \$15,500,000 from the State Lottery Fund in FY 2014 for Advertising. This amount is unchanged from FY 2013.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The budget includes \$721,100 from the State Lottery Fund in FY 2014 for Charitable Commissions. This amount funds the following adjustments:

Tab Ticket Increase

The budget includes an increase of \$34,400 from the State Lottery Fund in FY 2014 to realign spending with projected revenues.

Monies in this line item are used to compensate charities for selling lottery 'Tab Tickets.' Laws 2010, Chapter 126 established a special type of instant ticket, Tab Tickets, to be sold exclusively by charitable organizations, who receive a 20% commission for selling the games. The displayed amount is derived by applying the approved percentage, 20%, to the forecasted Tab Ticket sales. A.R.S. § 5-555 also allows the department to collect up to 35% of total Tab Ticket sales (which includes the 20% commission) for their operating budget, with the remainder distributed as prizes.

Instant Tickets

The budget includes \$16,858,500 from the State Lottery Fund in FY 2014 for Instant Tickets. This amount funds the following adjustments:

Instant Ticket Sales Increase

The budget includes an increase of \$802,800 from the State Lottery Fund in FY 2014 for Instant Tickets due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to pay for instant ticket printing and distribution costs. The actual appropriation is for 3.6% of instant ticket sales. The amount displayed is derived by applying the approved spending percentage to the forecasted sales total.

On-Line Vendor Fees

The budget includes \$9,508,400 from the State Lottery Fund in FY 2014 for On-Line Vendor Fees. This amount funds the following adjustments:

On-Line Vendor Fees Increase

The budget includes an increase of \$452,700 from the State Lottery Fund in FY 2014 for On-Line Vendor Fees due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to pay the vendor that operates the on-line game computer system. The actual appropriation is equal to a percentage of on-line ticket sales specified in the Lottery's contractual agreement with the vendor, which is 3.7%.

Retailer Commissions

The budget includes \$48,352,000 from the State Lottery Fund in FY 2014 for Retailer Commissions. This amount funds the following adjustments:

Retailer Commissions Increase

The budget includes an increase of \$2,302,500 from the State Lottery Fund in FY 2014 for Retailer Commissions due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to compensate retailers for selling lottery tickets. A.R.S. § 5-555 specifies that compensation to retailers will be at least 5.5% but not more than 8% of non-Tab Ticket sales. The actual appropriation is equal to 6.5% of these sales. Pursuant to statute, an additional 0.5% of total non-Tab Ticket sales may be paid to retailers based on their attainment of specified sales and marketing objectives. Since 40% of retailers are estimated to meet these objectives, this would result in an additional 0.2% in retailer commissions and a total retail commission rate of 6.7%. The displayed amount is derived by applying the approved percentage to the forecasted sales total

Lottery Forecast and Distributions

The budget assumes a 6.8% increase in overall Lottery ticket sales in FY 2013, followed by a 6% increase in FY 2014. For FY 2013 and FY 2014, the budget assumes Lottery ticket sales of \$690,740,100 and \$731,902,400, respectively.

Sources and Uses of Lottery Profit Distribution

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2012 and the JLBC Staff projected distributions for FY 2013 and FY 2014. A brief description of each beneficiary follows in the order that they receive Lottery-generated revenue in accordance with A.R.S. § 5-534 and 5-572.

State Lottery Revenue Bond Debt Service Payment Fund
Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to issue a

20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. The payments are made from Lottery revenues that would have otherwise been deposited into the General Fund. The FY 2012 bond payment was \$20,709,600, which was interest only. The principal and interest payments in FY 2013 and FY 2014 are expected to be \$37,499,600 and \$37,499,800, respectively. Chapter 4 requires the first Lottery proceeds to be distributed to the State Lottery Revenue Bond Debt Service Payment Fund.

Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is \$12,040,000 in FY 2013 and \$12,642,000 in FY 2014.

Laws 1993, 6th Special Session, Chapter 1 allocated not less than 31.5% of multi-state Powerball revenues to public transportation programs, otherwise known as Local Transportation Assistance Fund (LTAF) II. This allocation was capped at \$18,000,000 and was contingent upon the General Fund receiving \$45,000,000 in Lottery revenues.

Laws 2010, 7th Special Session, Chapter 12 redirected these monies to the General Fund. In September 2011, the U.S. District Court in the case of *Paisley v. Darwin* ruled that the Arizona Legislature must restore the distribution of mass transit monies to Maricopa County because the distribution was part of the state implementation plan to ensure compliance with the Clean Air Act. As a result, the state must calculate Maricopa County's share of 31.5% of statewide Powerball proceeds and distribute those monies to the county.

General Fund - Part 1

The statutory distribution requires the General Fund to receive up to \$84,150,000. The General Fund - Part 2 would receive up to an additional \$15,490,000 (for a total of \$99,640,000) after the statutory funding obligations have been met through the Homeless Shelters distribution. After all other statutory obligations have been met, the General Fund - Part 3 would receive all remaining revenues.

The profit distributions in FY 2013 and FY 2014 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,499,600 in FY 2013 and \$37,499,800 in FY 2014 count towards the \$84,150,000 General Fund - Part 1 requirement. Total General Fund distributions, net of bond payments, are therefore budgeted to be \$73,671,900 in FY 2013 and \$77,829,900 in FY 2014.

Heritage Fund

Statute caps annual distributions to the Arizona Game and Fish Commission's Heritage Fund at \$10,000,000. The funds are used to promote wildlife habitat and education programs and to rehabilitate historic buildings. In FY

2013 and FY 2014, the fund is projected to receive its entire allocation.

Health and Welfare Programs

Statute requires annual inflation adjustments for the Health and Welfare distribution. The revised allocation cap is \$20,539,000 in FY 2013 and \$20,829,100 in FY 2014. These amounts are distributed among the following agencies:

- 29.4% to the Department of Economic Security (DES) for the Healthy Families program.
- 23.5% to the Arizona Board of Regents (ABOR) for the Arizona Health Education Center program.
- 17.6% to the Department of Health Services (DHS) for teenage pregnancy prevention.
- 11.8% to DHS for Disease Control Research.
- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

Health and Welfare Programs are expected to receive their entire allocation in both FY 2013 and FY 2014.

Homeless Shelters

Under the statutory distribution, DES would receive up to \$1,000,000 for Homeless Shelters. The department shall use the funding to distribute grants to nonprofit organizations, including faith based organizations, for homeless emergency and transitional shelters and related support services. The fund is estimated to receive its full allocation in both FY 2013 and FY 2014.

General Fund - Part 2

As noted above, the General Fund would receive up to an additional \$15,490,000 after all prior allocations have been met. In FY 2013 and FY 2014, the General Fund is estimated to receive its entire allocation of \$15,490,000.

Arizona Competes Fund

Statute caps annual distributions to the Arizona Competes Fund at \$3,500,000. Allotments to this fund are used for administering grants to qualifying businesses for the purpose of attracting, retaining, and expanding business within the state. This fund is estimated to receive its full allocation in both FY 2013 and FY 2014.

University Capital Improvement Fund

This fund serves as the source for up to 80% of the annual debt service associated with \$800,000,000 of University Capital construction lease-purchase agreements. This fund received \$10,298,500 in FY 2012, which was 80% of the annual debt service payments on the \$316,590,000 of lease-purchase agreements that have been issued to date. The UCI Fund is expected to require \$13,330,600 in FY 2013 and \$18,531,200 in FY 2014 to make the expected level of debt service payments. The FY 2014 estimate includes debt service payments on \$524,533,000 of lease-purchase agreements that have already been or will be

issued by the end of FY 2014. Once the full \$800,000,000 has been issued, debt service payments could total \$41,632,800, depending on assumptions of repayment lengths and interest rates. *(Please see the FY 2014 ABOR Capital Outlay section for more details.)*

General Fund - Part 3

The General Fund receives all remaining revenues after all statutory funding obligations have been met. These payments to the General Fund are budgeted to equal \$11,531,500 in FY 2013 and \$15,689,700 in FY 2014.

Other Issues

Automation Projects Transfer

The budget includes one-time FY 2014 transfers from this agency's funds associated with its proportionate share of costs for replacement of the state's financial accounting system. *(Please see the Automation Projects narrative for more details.)*

Table 1			
Forecast of Lottery Revenue Distribution			
(\$ in Millions)			
<u>Sales</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Instant Sales	\$413.1	\$446.0	\$481.6
On-Line Sales	<u>233.6</u>	<u>244.7</u>	<u>250.3</u>
Total Sales	\$646.7	\$690.7	\$731.9
<i>Less:</i>			
Operating Budget ^{1/}	\$ 84.3	\$ 95.7	\$ 99.4
Fund Transfers ^{2/}	1.9	0.0	0.0
Gaming Distribution	0.3	0.3	0.3
Prizes ^{3/}	<u>400.6</u>	<u>423.1</u>	<u>450.4</u>
Net Profit ^{4/}	<u>\$159.6</u>	<u>\$171.6</u>	<u>\$181.8</u>
<u>Profit Transfers</u>			
Debt Service Fund	\$ 20.7	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{5/}	11.2	12.0	12.6
General Fund - Part 1 ^{6/}	59.9	46.7	46.7
Heritage	10.0	10.0	10.0
Health and Welfare Programs	19.3	20.5	20.8
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2 ^{6/}	15.5	15.5	15.5
Arizona Commerce Authority ^{7/}	3.5	3.5	3.5
University Capital	10.3	13.3	18.5
General Fund - Part 3 ^{6/}	<u>8.2</u>	<u>11.6</u>	<u>15.7</u>
Total Transfer	<u>\$159.6</u>	<u>\$171.6</u>	<u>\$181.8</u>
^{1/} Of this amount, an estimated \$686,700 in FY 2013 and an estimated \$721,100 in FY 2014 will be distributed to charities. ^{2/} In FY 2012, there was a \$1,352,400 continued Fund Reduction Transfer and a \$509,400 pay/benefit reduction. ^{3/} Prizes are estimated by subtracting net profit and operating budget expenditures from total Lottery sales. ^{4/} To derive the profit transfer amounts, the actual FY 2012 rate of return for each game was applied to the current budget forecast. The cumulative profit transfer rate is 25.01%. ^{5/} As a result of a federal court order, Maricopa County's share of Local Transportation Assistance Fund II monies was reinstated starting September 2011. <i>(See Lottery Forecast and Distributions for more information.)</i> ^{6/} Excluding fund transfers, distributions to the General Fund totaled \$83,578,300 in FY 2012 and are budgeted to be \$73,671,900 in FY 2013 and \$77,829,900 in FY 2014. ^{7/} Laws 2012, Chapter 297 moved the Arizona Competes Fund distribution from before the General Fund – Part 1 to after General Fund – Part 2, beginning in FY 2013.			